

TAKING ADVANTAGE: HOW SMEs CAN BECOME SUCCESSFUL CONSTRUCTION FRAMEWORK CONTRACTORS



Frameworking is the tendering of a programme of projects to the same team over a predetermined period of time. It enables the client/contractor partnership to develop and improve. It also provides a work continuum through which the supply chain can be integrated, bringing the experience and innovative capability of contractors and subcontractors to the programme in return for continuity of involvement.

The view is sometimes expressed that construction frameworks are for larger organisations and contractors. Closer inspection, however, reveals that small and medium-sized enterprises (SMEs) are by no means excluded from the picture. Local government perhaps appreciates their value to the local economy more than any other construction client. Examples from both larger and smaller authorities show that much can be done to encourage and assist SMEs in becoming successful framework participants. What is also evident is that, where effort is invested in SME involvement, frameworking can deliver construction efficiencies plus a number of important local economic benefits.

The adoption of construction frameworks in the local authority sector has invariably been driven by service improvement agendas. Objectives include securing better value for money, increasing purchasing power and reducing transaction costs, overheads and waste. In the ongoing search for efficiencies which, since Gershon, and the influence of Comprehensive Spending Reviews, have been turned into challenging targets, such savings can make a valuable contribution.

THE GROWTH OF THE CONSTRUCTION FRAMEWORK MARKET

Frameworking has a relatively short history. It commends itself to clients involved in project programmes which are repetitive in type, style and detailing of buildings and components. It has become a favoured procurement form in the commercial sector, for central government programmes and amongst housing associations. Local government also includes a number of authorities with growing records of success in the development and operation of frameworks.

In the absence of measured data it is probably fair to say that the extent to which the use of frameworks has grown within the market makes them an influence on tendering opportunities at all levels. Contractors who have chosen not to embrace them, or who have not so far been successful in obtaining framework commissions, are likely to be conscious of a reduction in the opportunities available to them under traditional forms of procurement.

THE IMPORTANCE OF SMEs IN THE LOCAL AUTHORITY AGENDA

Under EU regulations, the term 'SME' refers to any company with fewer than 250 employees and a turnover of less than £34 million. Other SME classifications distinguish them by staffing level sub-groups below 250 employees. These definitions can encompass relatively large bodies

operating through discrete regional entities. They also include specialist subcontractors whose particular specialisms are of sufficient uniqueness and distinction to bring work on the largest projects for the most skilled and experienced of the major contractors. But it also covers the very smallest operators, builders with one or just a handful of operatives, whose business skills are often concentrated in a partner dealing with the paperwork at home.

SMEs, therefore, include a diverse range of industry participants operating in different environments and distinguished by a wide range of knowledge, skills and business capacities.

The utilisation of smaller local companies contributes positively to economic and sustainability agendas, can provide training and employment opportunities, and create a range of associated social benefits, whose value has been recognised by many authorities. The utilisation of smaller companies has generated positive impetus within the bounds of probity and procurement regulations to maximise SME opportunities within their framework projects.

THE CHALLENGES OF FRAMEWORKS TO SMEs

Various strategies are available to clients developing frameworks and wishing to maximise accessibility to SMEs. The overriding factor in doing so, however, must be a constant awareness of the ways in which the process could otherwise adversely impact on SMEs. To this must be coupled a willingness to identify particular areas of difficulty and find ways of neutralising them.

Situations from which SMEs are, or feel themselves to be, excluded, tend to be the result of insufficient consideration of or investment in the effort necessary to remove the barriers to their participation.

It is not acceptable under prevailing procurement Directives to confine framework opportunities to SMEs, or to apply selection criteria which restrict entry to locally based firms. When, however, essential service standards, costs and management arrangements are evaluated, compliance may be difficult for firms attempting to operate without a local base.

Several local authorities have resolved to support SME interests. They have taken positive steps to identify potential obstacles to SME involvement in their frameworks and to find ways around these obstacles.

Solutions include making adjustments to:

- the supply chain
- work banding and project sizing
- numbers of contractors
- consultation
- tender process simplification
- skills gap identification and training
- framework management arrangements
- succession planning

WHAT CONTRACTORS CAN DO

It was suggested, when considering the implications of frameworking, that it presents contractors with some challenges. It invites them to address certain key questions. These include, most significantly: are the contractors interested and able to work in the way that frameworking implies; and are they willing to embrace and sustain the fundamental change of culture which frameworking requires, as well as developing the necessary skills, competencies and capacities?

Those contractors, and, by implication, many others involved with local authorities, which have worked on framework agreements have responded positively:

- They have seen the way that the market is moving and accept that partnering and frameworks are here to stay. They have shown themselves to be realists, open to new ideas, and, most importantly, willing to commit to doing things differently. They appreciate that frameworking brings new commercial opportunities as well as shifting the balance away from traditional lowest-cost single-project tendering;



- They have recognised that collaborative association through frameworking enables them to add real value for their clients by contributing to projects from inception, when value engineering can deliver its biggest benefits. With agreement on risk and cost transparency around agreed preliminaries and overheads, commercial uncertainty is reduced and energy can be concentrated on service quality and fulfilling their clients' aspirations;
- They value working in relationships of openness and trust, free from aggravation and dissonance;
- They understand that frameworks offer benefits of considerable value to the contractor as well as to the client, including assured levels of payment and the potential for increased profits. The longer-term workload assurance offered by frameworks enables them to invest in business development and training, and add value in a range of areas which could not be approached with the limited margins and uncertainty that accompanies low-cost tendering;
- They have concluded that the benefits of engagement outweigh the costs of equipping themselves to participate;
- They wish to build relationships with their supply chains which reflect the same principles, recognising that framework potentials cannot be achieved without full integration of the supply chain;
- They have also accepted that sustainability is an issue for all participants in the construction process and that collaborative working is the best way to harness the contractor's contribution to the growing challenges that sustainability presents to the industry.

These motivations are no less powerful in SMEs than in larger contractors. If the practical challenges may appear greater to them, the more thoughtful have also recognised that, by playing to their strengths, particularly their flexibility and lower overheads, they actually have some advantages too.

Many contractors have recognised the need for a radical assessment of where traditional operation has positioned them, as a starting point for planning cultural and operational changes within a fast-moving environment.

WHAT CAN BE ACHIEVED WHEN SMEs ARE SUCCESSFUL

To operate successfully in frameworking, SMEs will have demonstrated comparable capacities to larger contractors. They will be improving performance in terms of cost and time assurance on allocated projects. Their service will be more customer-orientated and their projects will have fewer defects. They will achieve better scores in health and safety audits. They will enjoy greater assurance in terms of workload and payment and should also be more profitable. They will also be adding value in other areas of their clients' agendas.

Added value includes local economic benefits derived from employment, training, commercial relationships and the associated economic multipliers, including reduced travel and transport – all of these support the sustainability agenda in its wider sense.

On an individual project basis, statistics are often produced recording the number of training opportunities provided – local employment in general and employment of under-represented groups in particular. Nevertheless, as when trying to assess the extent and impact of current framework use, there is no overall statistical data available on the contribution made by frameworks to local and regional economic and sustainability goals.

SUMMARY

Success in construction frameworking is about the creation of effective collaborative relationships. It requires a good fit between clients and contractors and suppliers. This puts burdens of learning on both client organisations and contractors. Frameworks which do not address the challenges they present to SMEs may discourage them from attempting to become involved or reduce their chances of being appointed.

Although there has been no formal audit, anecdotal experience suggests that, in quantitative terms, SMEs have secured similar amounts of work from their frameworks as they did under preceding procurement arrangements.

SME involvement in frameworks will not compromise the efficiency benefits which make them attractive to clients. The flexibility, responsiveness and economies in overheads of SMEs, along with their wider skill range, help compensate for the advantages in terms of size and capacity which larger firms can bring to frameworking.

When SMEs are engaged in successful frameworks, they contribute to the realisation of a range of valuable local economic benefits as well as delivering the usual efficiency advantages. These include gains in local employment and the associated economic multipliers, plus sustainability gains. These are of particular importance to the fulfilment of local authorities' wider local economic objectives.

Viewed in terms of their responsibilities for economic well-being, local authorities, above all other construction clients, have perhaps the best reason to take the lead in encouraging and facilitating SME entry into their frameworks.

THE FUTURE

Looking beyond individual local authority initiatives, collaborative framework arrangements are beginning to develop around London and in other parts of the country, both regionally and sub-regionally, as authorities explore the potential efficiency benefits of collective construction procurement. There will inevitably be implications for SMEs.

Through the South East Centre of Excellence (SECE) collaborative project between some 19 county and unitary authorities, the South East region is at the forefront of regionally based framework arrangements. The feasibility of a national rollout of the regional model pioneered by SECE is currently being explored through the Regional Centres of Excellence. This will potentially extend the benefits of frameworking to a greater number of authorities, on terms sensitive to the interests of SMEs.

One contractor reported that, in second generation frameworks, clients were considering the aggregation of work into larger packages, a move seen as unhelpful to SMEs as main contractors. It is the client who sets the agenda and exercises the prerogative to make such decisions. There is, however, a need to think carefully about the objectives and benefits which are being sought, assess the likelihood of realising these and consider the possible consequences. A presumption that, if



frameworks are good, then bigger ones must be better, might not always withstand the rigours of this line of scrutiny.

To benefit from the talents of the industry, and to foster competitiveness, it is in clients' interests to package work creatively and to appeal to the widest spectrum of interest of the market at all levels. For their part, SMEs must accept that the world of construction procurement is changing and that lowest-cost single-project tendering will no longer deliver what clients are increasingly looking for. The pressures on them to decide whether to engage with frameworks will not diminish.

In construction, big is not always best. Imagination and resourcefulness when combined with economy and flexibility make a formidable combination. The reality in construction frameworks is that, for SMEs, the opportunities are ultimately limited only by the scale of their own ambitions.

A full copy of the report *Taking advantage: how SMEs can become successful framework contractors*, including case studies and framework profiles, can be accessed at:

http://www.constructingexcellence.org.uk/pdf/lgtf/smes_and_frameworks_sept07.pdf

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